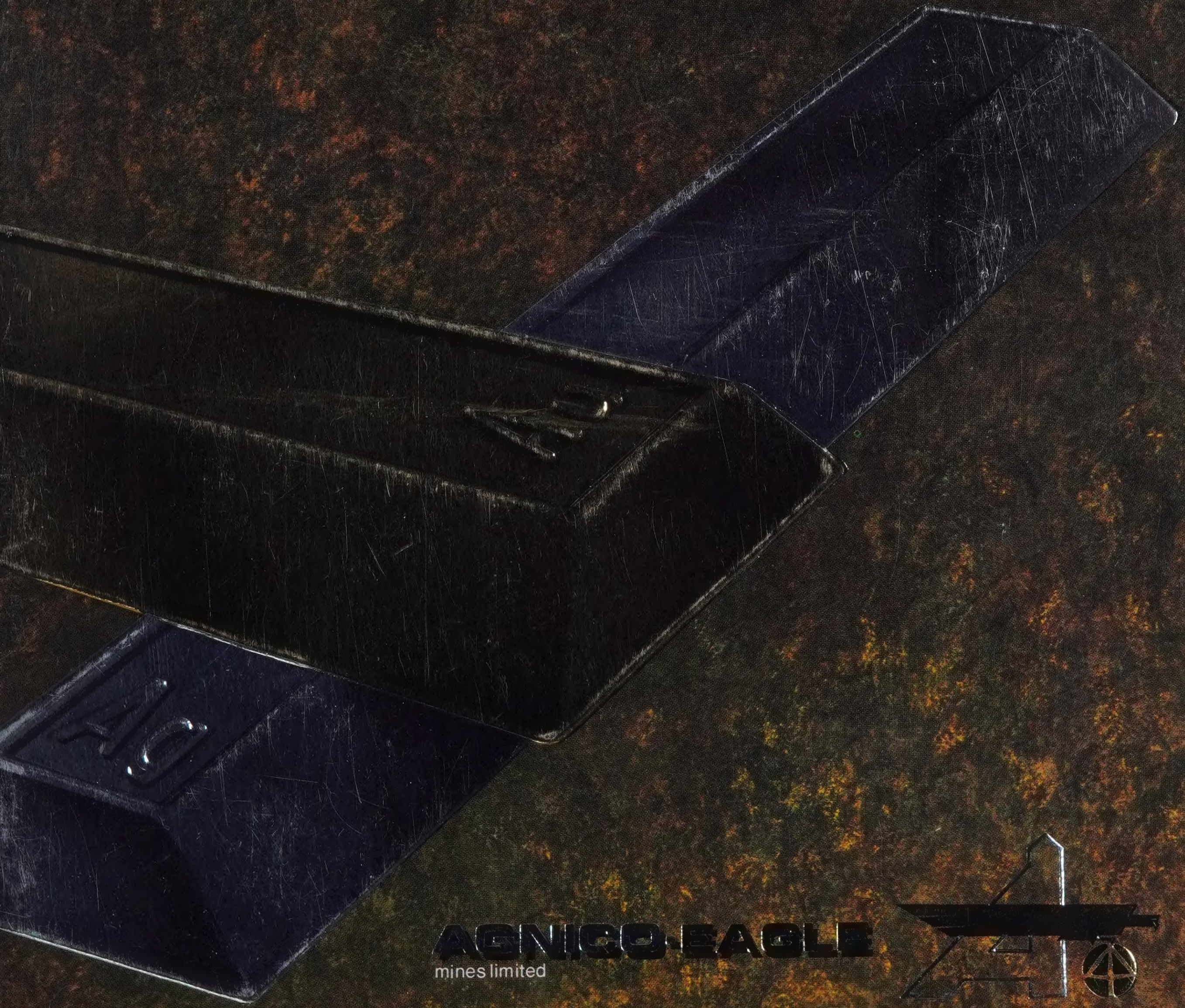
annual report 1972



AGNICO-EAGLE
mines limited

MAJOR SHAREHOLDER IS MENTOR EXPLORATION AND DEVELOPMENT CO. LTD

AGNICO-EAGLE
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ANNUAL REPORT TO SHAREHOLDERS

For the Year Ended December 31, 1972

CONTENTS

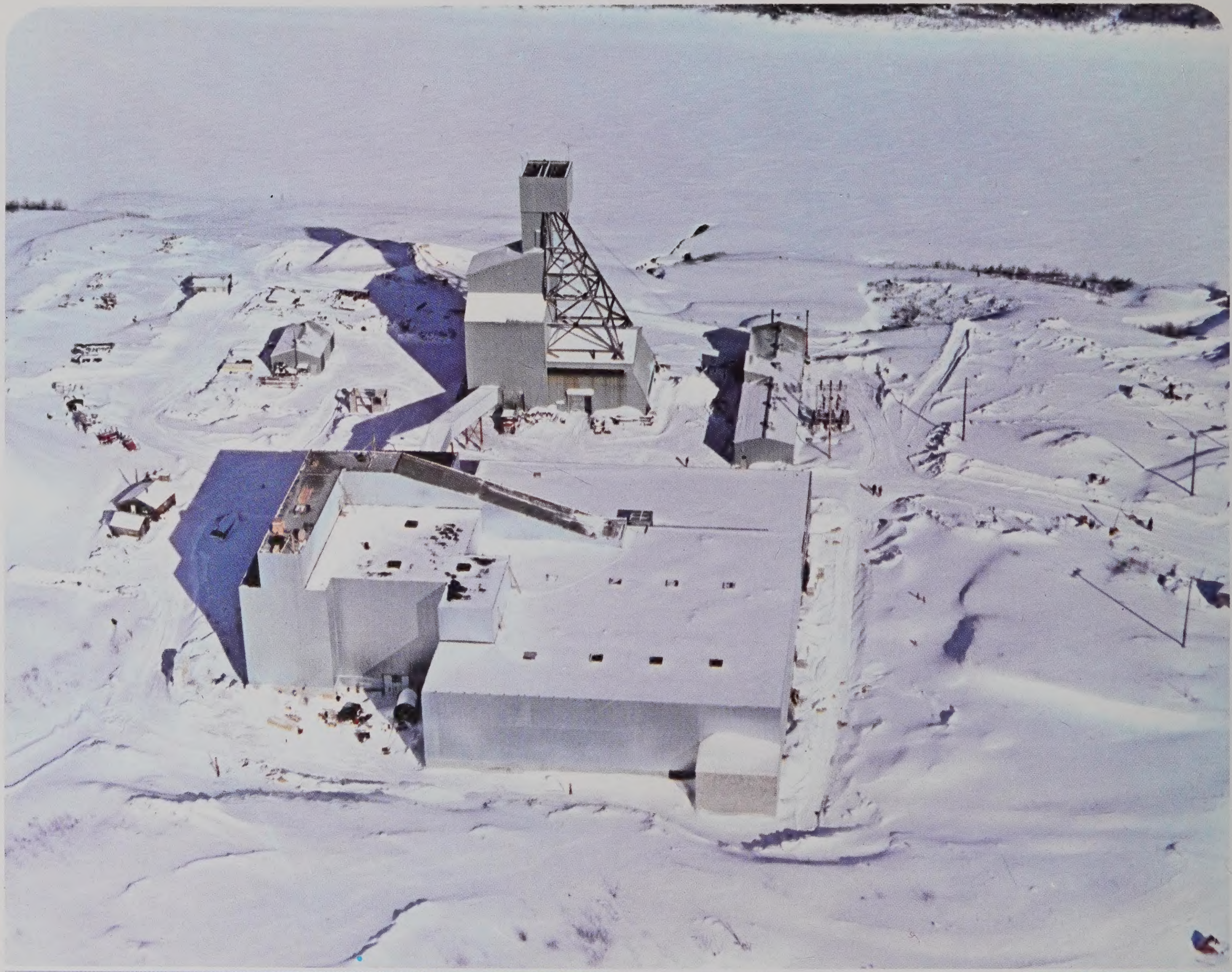
THE FRONT COVER

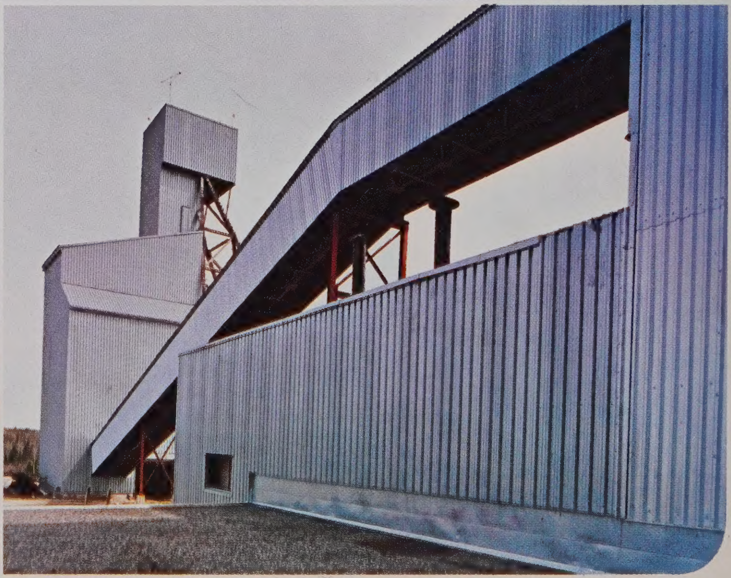
The traditional gold and silver bars (Au — Gold, Ag — Silver) reflect the amalgamation in 1972 of Agnico Mines Limited and Eagle Gold Mines Limited. This theme is continued in the new corporate graphic symbol with the outlined 'A' signifying the shaft headframe which was long a component of Agnico's corporate symbol, which is superimposed by the stylized eagle. The sphere at the feet of the eagle is the symbolic form for gold and it encases the Tree of Life — the immortality of the mineral extractive industry.

TOP: *Looking northeast across site of surface plant at Joutel Township Gold Property of Agnico-Eagle Mines Limited with Harricana River in background. This picture was taken during the winter of 1972-73 after completion of metal cladding of mill-crusher building complex which is in foreground.*

LOWER LEFT: *Office-shops-warehouse building complex in foreground, mill-crusher building to the rear. This view is toward southwest.*

LOWER RIGHT: *View of closed ore conveyor for transporting ore from underground primary crusher to main mill-crusher building.*





DIRECTORS

ARCHIE BASEN, Executive, American Louver of Canada Limited
EDWARD L. BAXTER, Professional Photographer
ALLEN BINSTOCK, Real Estate Agent, Ernest Goodman Limited
IRVING DOBBS, Insurance Executive
MILTON KLYMAN, Broker-Dealer, M. Greene & Associates Limited
PAUL PENNA, Executive, Jakmin Investments Limited

OFFICERS

PAUL PENNA, President and Managing Director
MIKEY DRUTZ, Secretary-Treasurer

EXECUTIVE AND HEAD OFFICE

Suite 300, 365 Bay Street,
Toronto, Canada M5H 2V1

MINE OFFICE (Gold Division)

P.O. Box 310, Joutel, Quebec

MINE OFFICE (Silver Division)

P.O. Box 140, Cobalt, Ontario

MINE STAFF (Silver Division)

GORDON W. KIRK, P.Eng., Mine Manager
BRIAN THORNILEY, B.Sc., M.Sc., P.Eng., Chief Engineer and Chief Geologist
ARMAND R. COTE, P.Eng., Mine Superintendent
GORDON D. WILSON, P.Eng., Mill Superintendent

CONSULTING GEOLOGIST

W. A. HUBACHECK, B.Sc., P.Eng.

ANNUAL MEETING OF SHAREHOLDERS

The Company will hold its Annual Meeting on Thursday, June 28, 1973 at 10.00 a.m. (Toronto Time) in the Library, Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.

AGNICO-EAGLE
mines limited

AUDITORS

Starkman, Kraft, Rothman, Berger & Grill,
Chartered Accountants, Toronto, Ontario

SOLICITORS

Shibley, Righton & McCutcheon,
Toronto, Ontario

BANKERS

Canadian Imperial Bank of Commerce,
The Toronto-Dominion Bank,
Toronto, Canada

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada
88 University Avenue, Toronto, Ontario
427 St. James Street West, Montreal, Quebec

SHARE LISTINGS

The Toronto Stock Exchange, Toronto, Canada
Ticker Symbol "AGE"
Canadian Stock Exchange, Montreal, Quebec
Ticker Symbol "AGE"
O. T. C. in United States of America
NASDAQ Symbol "AEAGF"

TOP: *Aerial view of Joutel Townsite, Quebec, near the Agnico-Eagle Gold Property. Company-owned staff housing complex is at top left portion of picture. This consists of 12 houses. Two Company-owned apartment blocks are located at centre right and the trailer accommodation for 60 single employees is at bottom of picture.*

LOWER: *This is a view of four of the staff houses owned by the Company in Joutel, Quebec. The Joutel Townsite affords such amenities as schools, recreation centre, shops and utilities.*

AGNICO-EAGLE
mines limited

SUITE 300, 365 BAY STREET
TORONTO, CANADA M5H 2V1

PRESIDENT'S REPORT TO THE SHAREHOLDERS

This is the first Annual Report of your Company since the amalgamation of Agnico Mines Limited and Eagle Gold Mines Limited, as approved by shareholders of each company at general meetings held May 26, 1972 and formalized by Articles of Amalgamation dated June 1, 1972.

The amalgamation has resulted in a single corporate entity with a stronger financial base, owning both gold and silver deposits which complement each other in terms of outlook and related projected potential earnings, thereby providing a diversified mining organization with a substantially broadened foundation for future development and growth.

The Annual Report now incorporates the two principal mining divisions of the Company — the Gold Division which is oriented around the properties in Joutel Township, Quebec, and the Silver Division encompassing several properties including former producing mines in the Cobalt Camp and nearby South Lorrain Township, Ontario.

The Annual Report also includes the audited financial statements for the period ended December 31, 1972, the Auditors' Report to the Shareholders, the report of the Mine Manager covering operations of the Silver Division, and a detailed separate Review of Developments relating to the Gold Division. Due to the amalgamation, comparative figures for the corresponding period ended December 31, 1971 are not presented in the attached financial statements.

Silver Division

Mining operations of the Silver Division during 1972 were essentially concentrated at the Trout Lake Mine in South Lorrain Township where ore production has been stockpiled on surface in preparation for treatment at the Company's Penn Mill which is scheduled to commence seasonal operation during June, 1973.

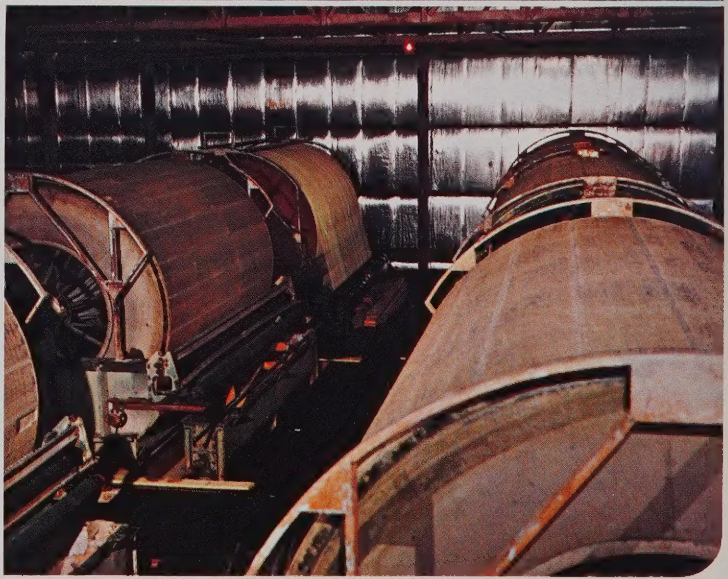
Owing to continuing depressed silver prices during most of 1972, the Penn Mill did not operate during the year. As shown on the statement of income, revenue from the sale of metals and silver bullion for the Silver Division amounted to $244,649 representing the proceeds from a small shipment of high grade ore containing close to 100,000 ounces of silver and a profit realized from the sale of silver bullion from inventory.

The main ore production unit during 1972 was the Trout Lake Mine in South Lorrain Township. The estimated silver content of the presently stockpiled ore on surface together with developed and broken ore underground at the Trout Lake Mine is in the order of one million ounces. This ore is scheduled for treatment in the Penn Mill during the current year.

TOP: *Workmen installing the five-foot Hydrocone crusher which is part of the crushing and grinding circuit of the 1,000 ton per day cyanidation plant.*

LOWER LEFT: *One of the three units comprising the primary filtering circuit which separates liquids from solids.*

LOWER RIGHT: *This is another view of the primary and secondary filtering circuits. There are a total of six such drum filters used in the treatment process.*



Five principal vein systems are being explored and developed on the three new levels which were established in the underground program during 1972. The results of this work are described in the Mine Manager's Report.

Subsequent to the year end, development on the 8th level crosscut intersected the #10 vein and continued to follow it in ore for 120 feet to a point where it ended at a fault zone. Three lifts of backs were mined on a vein up to four inches in width and containing short sections of high grade silver.

Stoping above the 7th level on the #1 vein continues on a vein up to 18 inches in width and containing sections of rich silver. Stoping on the #9 vein above the 6th level continues in high grade ore. This stope is extending beyond diamond drill indications.

A diamond drill hole drilled from the 7th level intersected a vein which assayed 9.0 ounces over 6.5 feet at 89 feet from the collar and continued on to intersect the #10 vein 28 feet below the 8th level assaying 449.7 ounces silver over 4.2 feet. More drilling will be done on this vein before driving the 9th level crosscut into this area.

The extensive exploration program on the nearby leased Frontier Mine which was initiated during 1971 and primarily directed toward a test of the lower contact of the Nipissing diabase sill is continuing and providing encouragement. Among recent developments, diamond drilling south from the 1420 foot level workings has provided a good intersection which is 160 feet above the level. Two silver bearing calcite veins were intersected, one of which assayed 598.8 ounces over 0.5 feet and the other 83.4 ounces over 2.5 feet. Three diamond drills continue to explore this lower contact of the diabase sill.

In earlier operations, production from the upper contact of the diabase sill of this property yielded some 19 million ounces of silver. More recently, limited work carried out by Canadian Keeley before closure in 1966, yielded some 400,000 ounces of silver from the lower contact area.

Dewatering operations are in progress at the Temiskaming Mine in the Cobalt Camp where an extensive exploration program will be similarly directed toward a test of the lower contact of the diabase sill. This property has a 1600 foot shaft and will provide access to the Company's contiguous Cobalt Lode and Christopher properties. There has been a combined production of 34 million ounces of silver from the upper contact of the Nipissing diabase in this area, including more than 20 million ounces from these three mines in former operations.

The Temiskaming Mine workings have now been dewatered below the 600 foot level and it is expected that exploration work on this major project should commence within the next two months.

As evident by the trend of silver prices in late 1972 and the continuation of the uptrend into the current year, the decision to defer treatment of ore from the Trout Lake Mine was obviously economically prudent.

The price received for the small shipment of silver during 1972 was approximately $2.00 per ounce. While silver prices at the present are below the peak of $2.50 per ounce briefly attained during early March, 1973 there are reasonable grounds to expect that the average price during 1973 will be appreciably higher than those for 1971 and 1972. The average price realized from silver production during 1971 when the Penn Mill operated for a period of approximately five months was $1.32 per ounce.

Gold Division

During 1972, your Company announced its decision to proceed with the final phase of completing the construction of the milling plant and the preparation of the Joutel Township gold property for production at an initial rate of 1,000 tons per day with start-up scheduled for September-October of this year.

This stated decision was coincident with the sustained increase in the price of gold establishing firm levels well above $60.00 per ounce during mid-1972 with subsequent advances demonstrating that an even higher base will develop, maintained by industrial demand and the apparent re-affirmation of the continuing role of gold as a monetary metal.

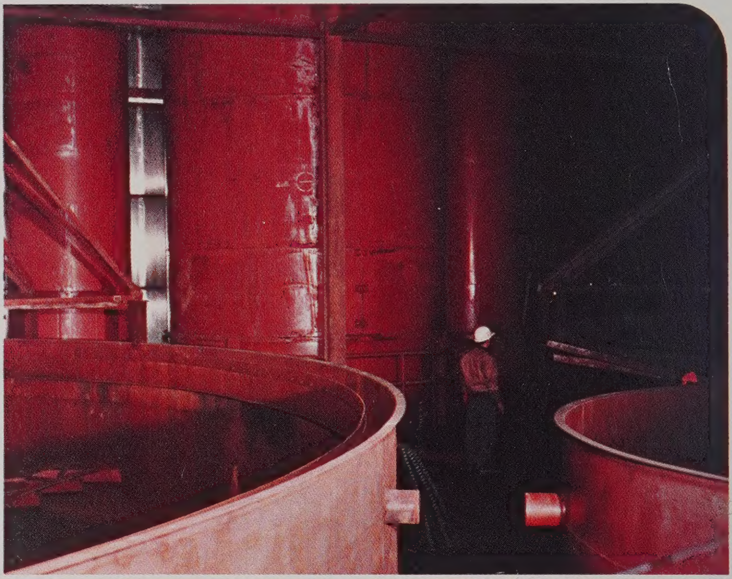
It is significant that free gold prices have climbed sharply in recent months despite the fact that South Africa is currently marketing its total new gold production and Russia continues to sell substantial amounts, the latter estimated at between 200 and 250 metric tons per year.

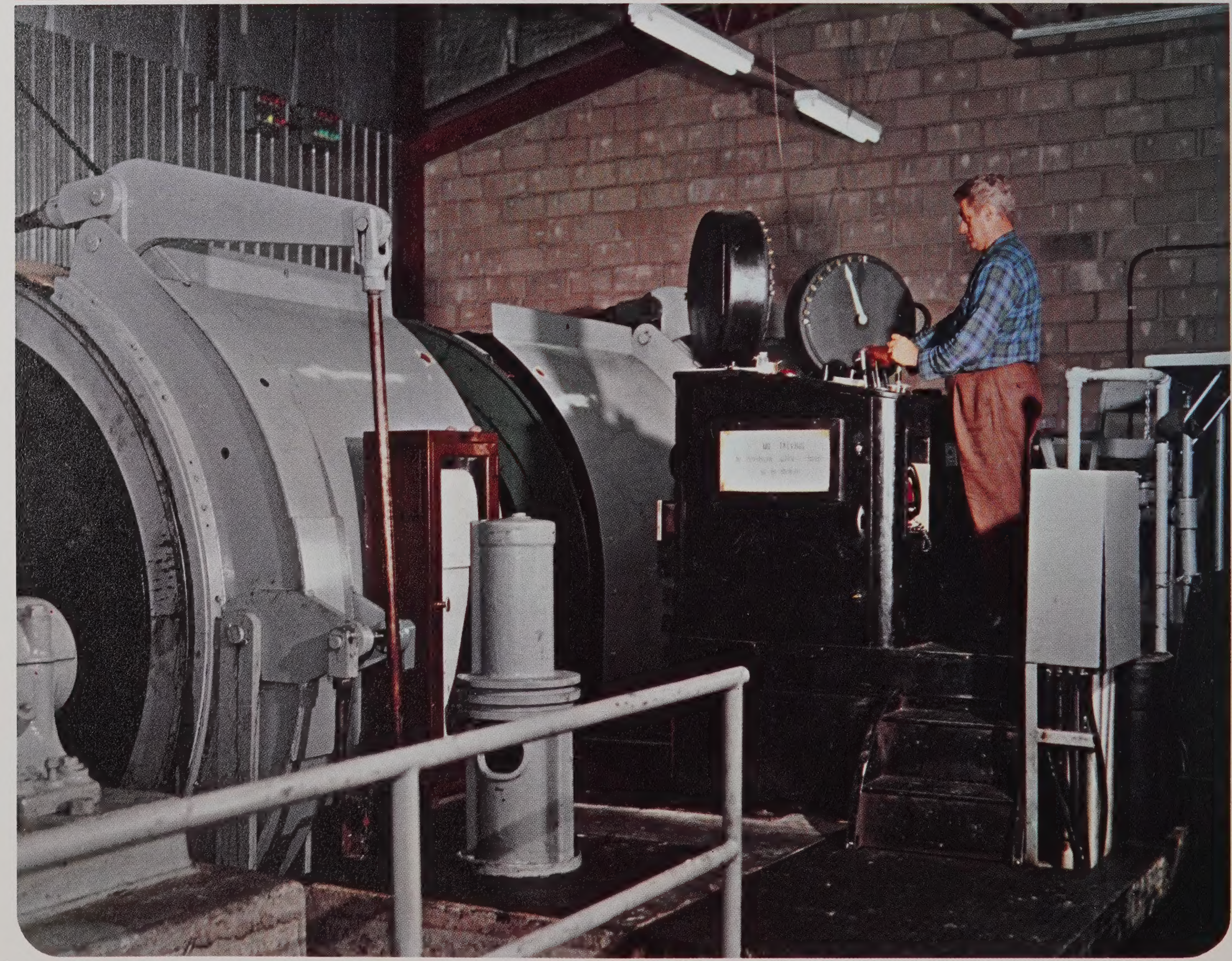
The gap between the quantity of gold used for industrial purposes and new mine output in the western world has been progressively narrowing every year since 1968 when the demand-supply balance was achieved. By 1971 gold fabrication in the free world had increased to over 1,400 metric tons, while production had fallen to 1,250 metric tons. The accumulated

TOP LEFT: *Installation of 11½-foot by 16-foot drum filter. As the drum rotates, a vacuum is applied from within which causes a thickness of the rock pulp to adhere to the drum.*

TOP RIGHT: *Foreground shows portion of the two 55-foot thickeners.*

LOWER: *The 8-foot diameter double drum hoist powered by two 350 H.P. electric motors, has a capacity for hoisting up to 1,500 tons per day from depths up to 3,000 feet. This reserve capacity was installed in keeping with long range projections for deepening shaft and increasing mining rate.*





gold deficit of about 2,500 metric tons was met by Central Banks and by speculative holders of bullion during the 1967-1968 period.

By mid-1971 holdings of gold by speculators in the form of bars had been reduced to about 500 metric tons which is close to the minimum required for normal trading. This provides impressive evidence that the recent rise in the price of free market gold to the current range of around $95.00 per ounce is due to a real shortage of gold combined with speculative buying created by the recent international monetary crisis. A recent survey among American users indicates that the industrial consumers will now accept a price of $100 per ounce as the critical level for substitution or cutback usage which compares with $65.00 per ounce previously cited.

The London bullion dealer, Samuel Montagu & Co., one of the best known and most respected authority on bullion prices, said in their latest review that "prices in excess of $100 may easily be reached".

The implications of these higher gold prices in terms of your Company's scheduled start-up of production this year are of extreme economic importance, particularly against the background of the presently defined tonnages consisting of various reserve categories totalling in excess of three million tons.

Assuming a constant operating cost factor of $8.00 per ton of ore treated and metallurgical recoveries of 90%, and based on an average ore grade of 0.29 ounce of gold per ton, each $10.00 per ounce increase in the price of gold will increase the estimated annual mine operating profit by approximately $900,000.

A chart and explanatory table of estimated annual mine operating profits at various gold price levels appears on page 25 of this report.

In retrospect, the decision of the management of your Company early in 1970 to defer bringing its gold mine into production owing to the factors then prevailing, has been more than justified by subsequent events. In contrast to many Canadian gold producers which have been depleting their ore reserves over the past few years at prices that, in light of current levels, were unrealistically low, your Company's present production scheduling appears most opportune.

The higher gold prices not only vastly improve profit margins, but also enable flexibility in mining schemes and ore reserve calculations as well as considering the feasibility of increasing mining and milling rates.

As previously reported, the proven and probable ore reserves in the area of the mine from the 900 to the 1500 foot levels where underground work and stope preparation is most advanced, are estimated at 753,909 tons averaging 0.307 ounce of gold per ton. The drill indicated or possible reserves calculated for the area above the 750 foot level and down to the 1800 foot level are 2,397,748 tons averaging 0.285 ounce of gold per ton. Both estimates include a 15% dilution allowance.

The total of the above reserve categories amounting to 3,151,657 tons averaging 0.29 ounce of gold per ton, lies between the 300 and 1800 foot levels. It is noted that the grade of ore to be mined in the initial years may well be above the mine average grade of 0.29 ounce per ton.

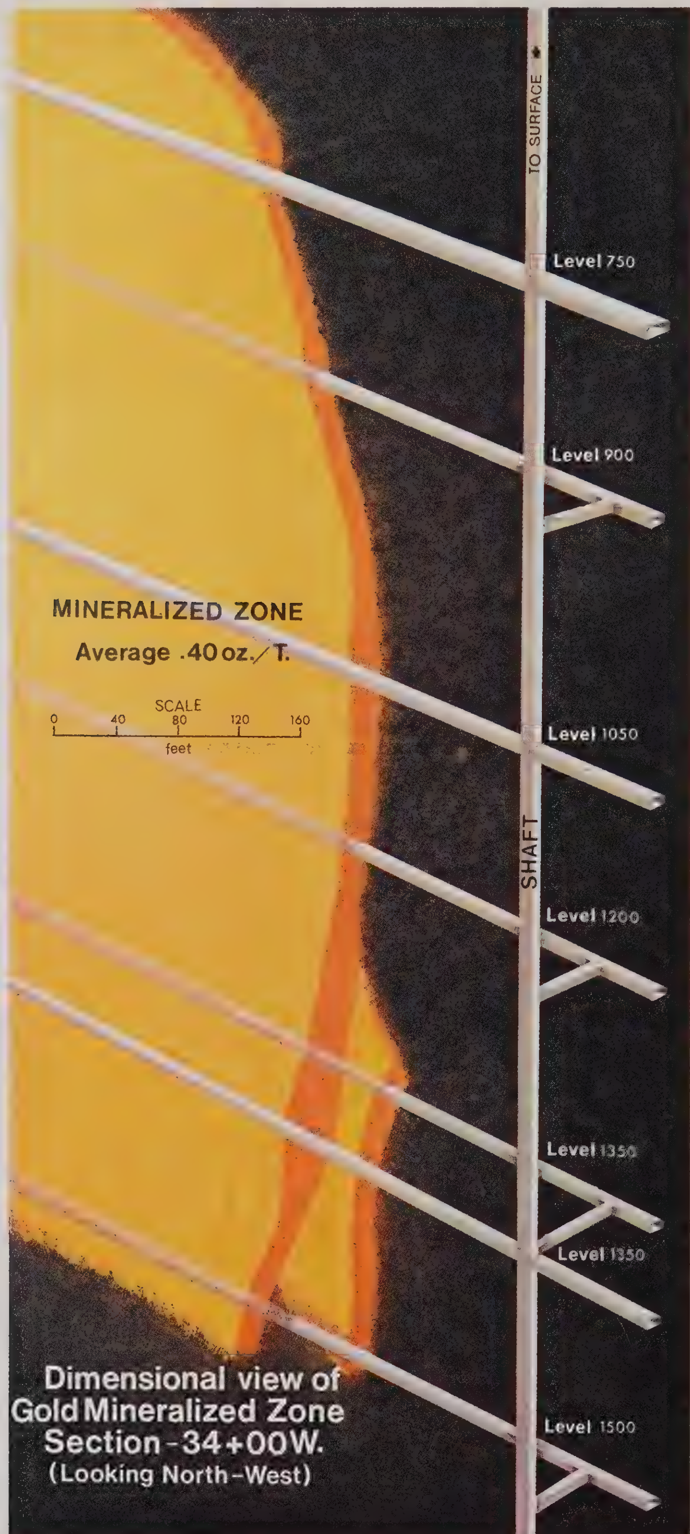
The presently defined gold mineralized zone is, of course, open for extension both laterally and to depth. The fact that the orebody is a sulphide type rather than a quartz vein type, suggests the chances for extension to greater depth are good. Moreover, there is also the possibility of other bodies occurring on strike and at depth.

Statistically, it is interesting to note that Canadian gold mines have often discovered a substantial amount of new ore during the production years and in many cases this amount has been substantially greater than the ore reserves calculated initially. A recent notable example is Camflo Mines Limited, now a well established producer in the Malartic Area of Quebec, in which the original production decision was made on drill indicated reserves of around 800,000 tons grading 0.21 ounce of gold per ton after dilution.

From the commencement of production in March, 1965 to December 31, 1971, Camflo has treated some 2.3 million tons of ore with an average recovered grade of 0.249 ounce per ton. Total proven and indicated ore reserves at the end of 1971 were 1,946,460 tons of 0.245 ounce per ton after dilution. The total ore mined in this period plus stated ore reserves at the end of 1971 amount to more than 4.2 million tons.

Following the decision to bring your Company's gold mine into production, and on completion of the engineering studies by Leslie Engineering Limited, the construction program to complete the mill and crushing plant together with related facilities, was commenced during August, 1972. This phase of the program, which is more specifically described elsewhere in this report, is on schedule and below the original budgeted cost.

This idealized dimensional view of the gold mineralized zone on Section 34+00 West (see 'Property Plan' page 19) shows the general layout of the underground workings for this portion of the mine looking northwest from the shaft. The geometry of the workings has been simplified for clarity in this drawing. The undiluted average grade of the ore zone in this particular area of the mine is 0.40 ounce of gold per ton.



The estimate of capital required to bring the mine into production is $3,360,000 which includes $300,000 working capital. At April 30, 1973, the amount expended or committed totalled $1,386,000 with a further $1,674,000 required to complete the program to production start-up.

An acting resident mine manager has been retained to organize the underground development program. Recruitment is in progress to assemble mine staff and operating personnel.

Financial

Subsequent to amalgamation on June 1, 1972, 295,000 treasury shares were sold under private placement to provide the Company $885,000 cash. Agreement in principal has been reached with regard to the borrowing by the Company of $2.5 million from a Canadian chartered bank. Definitive documentation is being prepared by the bank. This loan will provide the capital cost and working capital necessary to bring the Joutel Township gold property into production.

General

Your Board derives particular satisfaction in presenting this report on the progress of your Company and looks forward with understandable optimism to the fulfillment of this major objective in the bringing into production of the gold mine during the current year. We anticipate that this will prove to be a most profitable undertaking, particularly in view of the current and longer term outlook for gold prices. A profitable year is also anticipated for the Silver Division which is similarly favoured with improved prices for its principal metal.

The Board wishes to express appreciation to all members of the Company and its consultants for their effective efforts during the past year.

On behalf of the Board,

"PAUL PENNA"
President
and Managing Director

Toronto, Canada
May 24, 1973

Centre foreground is the new Trout Lake No. 3 Shaft, the current main silver production unit in South Lorrain Township, about 20 miles south of the Cobalt Camp. The old No. 2 Shaft is in the left background. Stockpiled ore, and ore from underground, is shipped via the connecting road to the Company's 450-500 ton per day Penn Mill in the Cobalt Camp. The latter mill is operated on a seasonal basis, with 1973 start-up scheduled for June.

SILVER DIVISION

MANAGER'S REPORT

The President and Directors,
Agnico-Eagle Mines Limited,
Suite 300 - 365 Bay Street,
TORONTO, Ontario.

April 23, 1973.

Gentlemen:

I am pleased to submit the following report covering operations at the Silver Division of Agnico-Eagle Mines Limited for the year ended December 31, 1972.

During 1972, the Silver Division in the Cobalt Area has conducted an extensive exploration and development program at its Trout Lake Mine and Frontier Mine located in South Lorrain Township. Ore production has been stockpiled on surface in preparation for milling operations expected to start in June, 1973.

EXPLORATION AND DEVELOPMENT

Trout Lake #3 Shaft — The shaft was deepened by 268 feet to an ultimate depth of 1,058 feet and three new levels were established in order to further explore and develop potential ore zones indicated by previous diamond drilling.

When the shaft deepening was completed, the first ore developed was #9 vein on the 6th level. While drifting on this vein, some high grade silver ore was bagged and shipped to the refinery. Stoping operations continue to provide good high grade ore from this vein.

On the 7th level, a crosscut was driven west of the shaft where it intersected #1 vein and continued on to develop two ore zones, one of which is producing good silver ore. A drift to the south of the shaft on this level developed a small but rich stope on #2 vein.

The 8th level crosscut is being driven west of the shaft to develop a potential ore zone indicated by diamond drilling and to provide diamond drill stations from which further exploration work can be done.

Some small pockets of ore have been discovered while driving ventilation raises between upper levels.

Diamond drilling resumed after the completion of shaft sinking. Two drills are being used on exploration work, one of which is employed on long range drilling while the other is used for short range drilling. Both drills are providing valuable information for future development work.

Frontier Mine — Hoisting facilities were installed at the #8 Winze which was then pumped down to the 1420 foot level at the lower contact of the diabase sill. Geological mapping was carried out before diamond drilling commenced.

During the time the winze workings were being prepared for exploration work, the diamond drills were employed on the upper contact workings.

Drilling on the lower contact has provided some significant intersections together with information on vein structures. More drilling is required before a decision can be made regarding future development work.

A small tonnage of ore is being produced from a vein mined above the first level.

Temiskaming Mine — This property located in the Cobalt Camp has a 1600 foot shaft that extends to the lower contact of the diabase sill where very little exploration work has been done in the past.

After installing a hoist and power transformers, pumping operations commenced in November, 1972. The shaft will be pumped down to the lower contact workings and a program of exploration drilling will be carried out together with exploration crosscuts to provide drill stations to explore the lower contact beneath upper contact workings of Agnico-Eagle's contiguous Cobalt Lode and Christopher properties.

96 Shaft — The exploration program exhausted all possibilities of finding new ore at this property. All broken ore was hoisted to the surface stockpile and the mine was closed in March, 1972.

The following is a tabulation of this exploration and development:

	1972 Footage	Unit Cost	1971 Footage	Unit Cost
Crosscutting & Drifting	1,724.6	$87.20	1,279.0	$64.45
Raising	455.0	37.75	702.5	32.29
Underground Diamond Drilling	29,430	5.64	29,798	5.00

High Grade Ore Shipment

23.83 tons of high grade ore containing 99,606.14 ounces of silver was shipped during 1972.

GENERAL

Special expenditures in 1972 were:

Trout Lake #3 Shaft — Shaft deepened by 268 feet.

Frontier Mine — Electric hoist installed at #8 Winze. A 1000 c.f.m. compressor installed on surface.

Temiskaming Mine — Hoist and transformers installed on surface.

In conclusion, I wish to extend my appreciation to the Board of Directors, staff and employees for their co-operation and assistance throughout the year.

Respectfully submitted,

AGNICO-EAGLE MINES LIMITED,
SILVER DIVISION,

G. W. KIRK, P.Eng.,
Manager.


LONDON FREE MARKET GOLD PRICE
per oz. in $
CHRONOLOGY OF SIGNIFICANT DATES re JOUTEL TWP. GOLD MINE
per oz. in $
JULY 1967 Shaft sinking started
JULY 1968 Shaft sinking completed
MARCH 1969 Decision made to expand underground program and commence construction of milling facilities in preparation for production planned to begin mid–1970.
JANUARY 1970 Construction program discontinued and production plans deferred owing to drop in gold price
MAY 26, 1972 Decision announced to formalize financing arrangements to bring mine into production.
APRIL 30, 1973 $90.75
SEPTEMBER · OCTOBER Scheduled start-up of production of 1,000 ton per day mill
AUGUST 21, 1972 Resumption of construction program (phase two) to complete mill and mining facilities
1967 1968 1969 1970 1971
1972
1973

GOLD DIVISION

Chronology

The Company's gold properties in Joutel Township, Quebec, about 75 miles north of the Town of Amos, now consist of two contiguous groups of claims. The main property on which the shaft and surface plant is sited, consists of 60 claims (approximately 925 acres of which 486.7 acres are held under mining lease, the remainder under development licences) and the adjoining property, held by the Company's subsidiary, consists of 34 claims.

In total, these contiguous properties cover approximately three miles of strike length along the main gold bearing structure with the presently defined gold orebody located near the southeastern boundary of the main property. Control of the 34 claims adjoining the main property was acquired in January, 1971, to obtain protection along the projected rake of the main gold zone. Underground work indicates that the east end of the orebody enters the latter property at about the 1300 foot level. Assuming the orebody continues to depth at its present rake, the orebody would enter this ground at approximately 3,700 feet below surface.

The appended Property Plan shows these two contiguous properties with the main gold bearing structure striking across the ground for an approximate strike length of nearly three miles and the shaft site and area of the longitudinal projection plotted thereon. Also appended is a schematic drawing showing the underground workings in section on the vertical longitudinal projection, and a further drawing showing the postulated assumed projection of the mineralized zone into the adjoining property to the southeast. As apparent in these drawings, the acquisition of the property adjoining to the southeast of the main property was particularly pertinent to the long range plans in the future development of the gold mine.

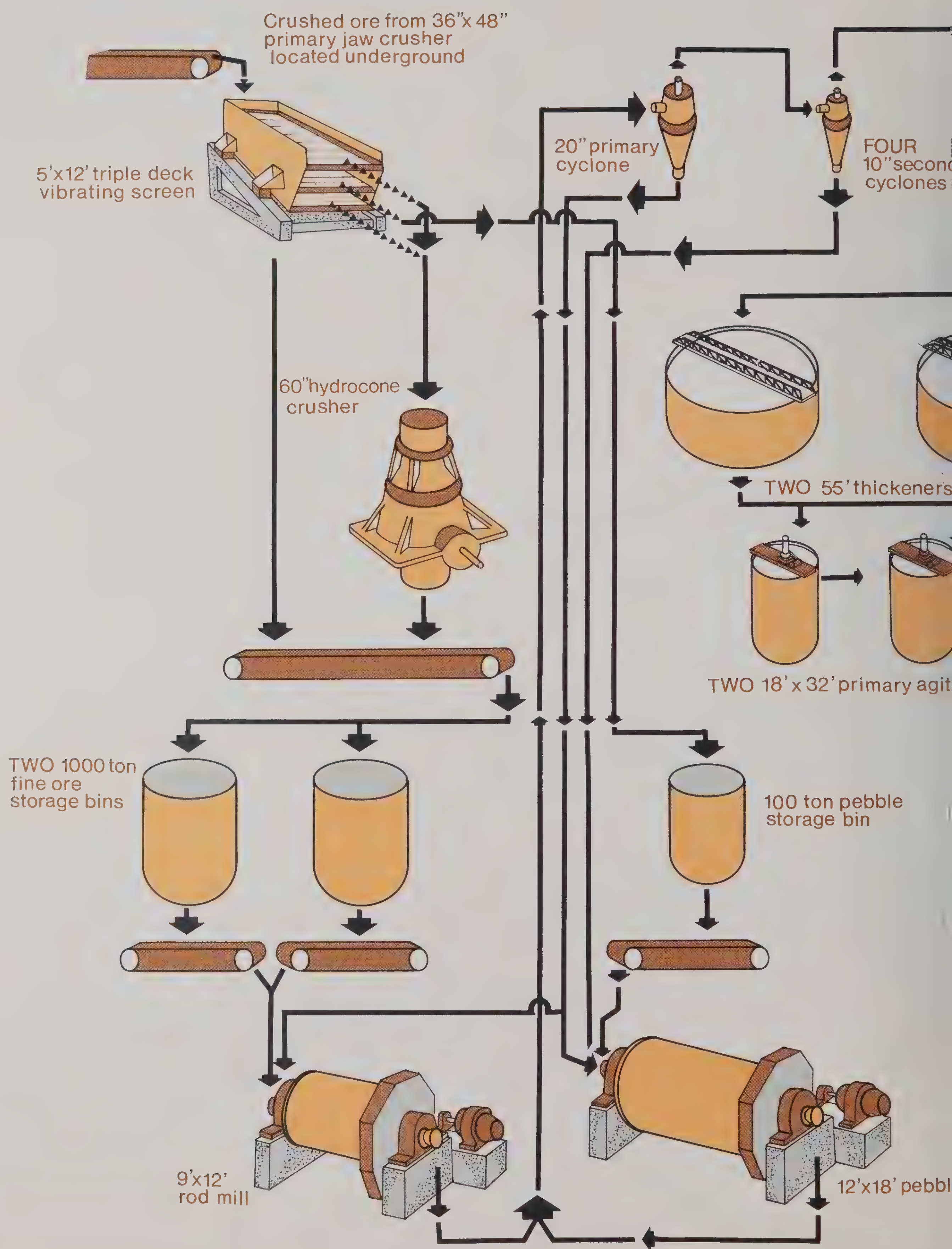
Prior to the sinking of the shaft, surface diamond drilling consisting of 81 drill holes for a total of 74,021 feet of drilling was carried out over the area of the main gold orebody. Ore estimates based on this surface drilling were calculated at 1,600,000 tons of possible ore averaging 0.41 ounce of gold per ton, or alternatively, using a lower cut-off grade, 2,240,000 tons averaging 0.345 ounce of gold per ton.

The foregoing surface diamond drilling was carried out by the predecessor company prior to the time in late 1966 when the present management acquired control of the Company and subsequently arranged the major financing to initiate the underground program.

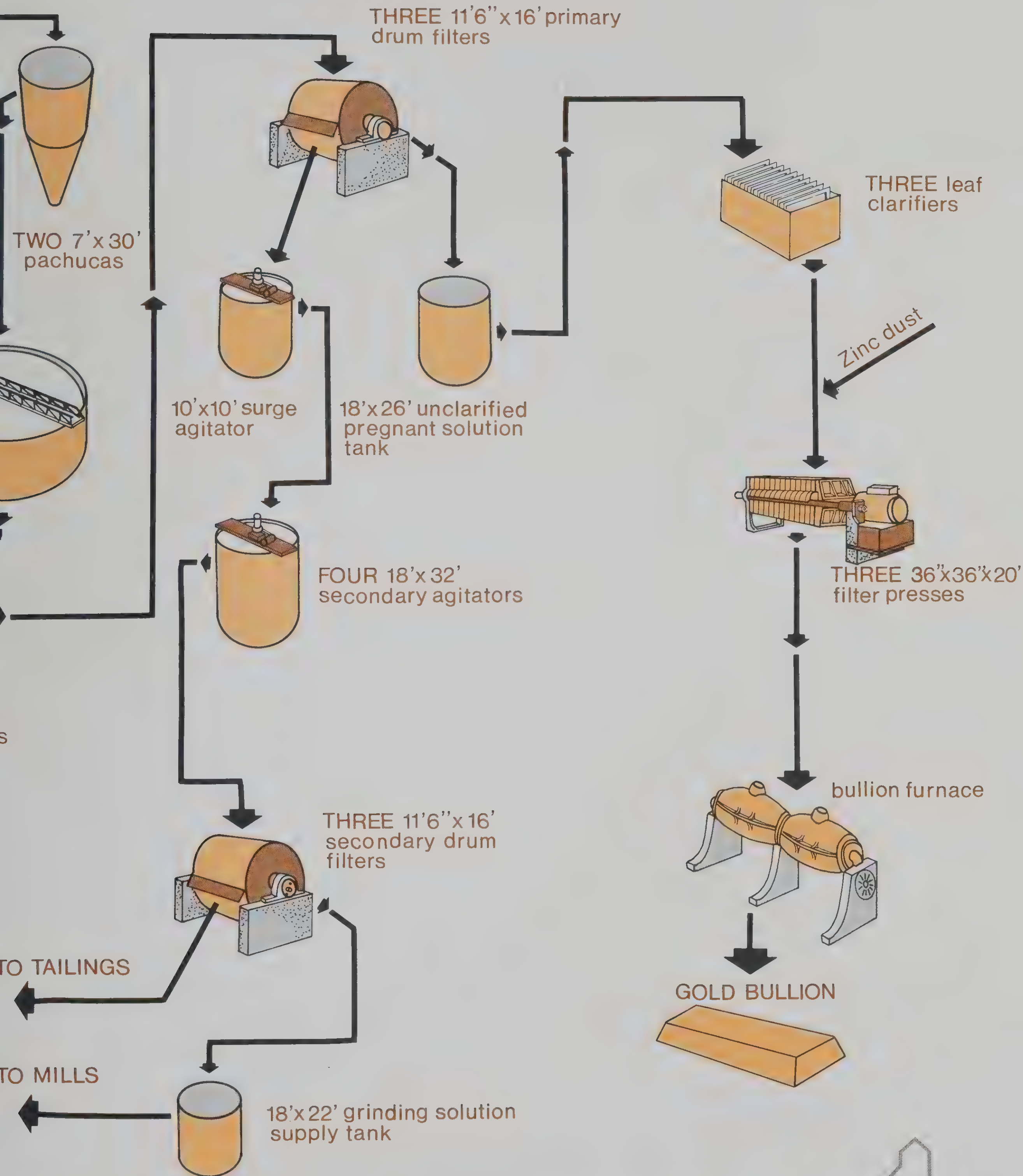
Sinking of the three-compartment production size shaft commenced during July of 1967 and was completed to a depth of 1,860 feet some 12 months afterward. By early 1969, underground work was sufficiently advanced to enable production planning with start-up of operations then scheduled for commencement in May, 1970. Late in 1969, it was necessary to consider the arranging of financing for the completion of the milling plant and ancillaries as well as the completion of the underground work and equipment installation.

Continued on page 20

BASIC FLOW DIAGRAM 1000 T.P.D. Gold C



anidation Plant and Refinery



AGNICO-EAGLE mines limited

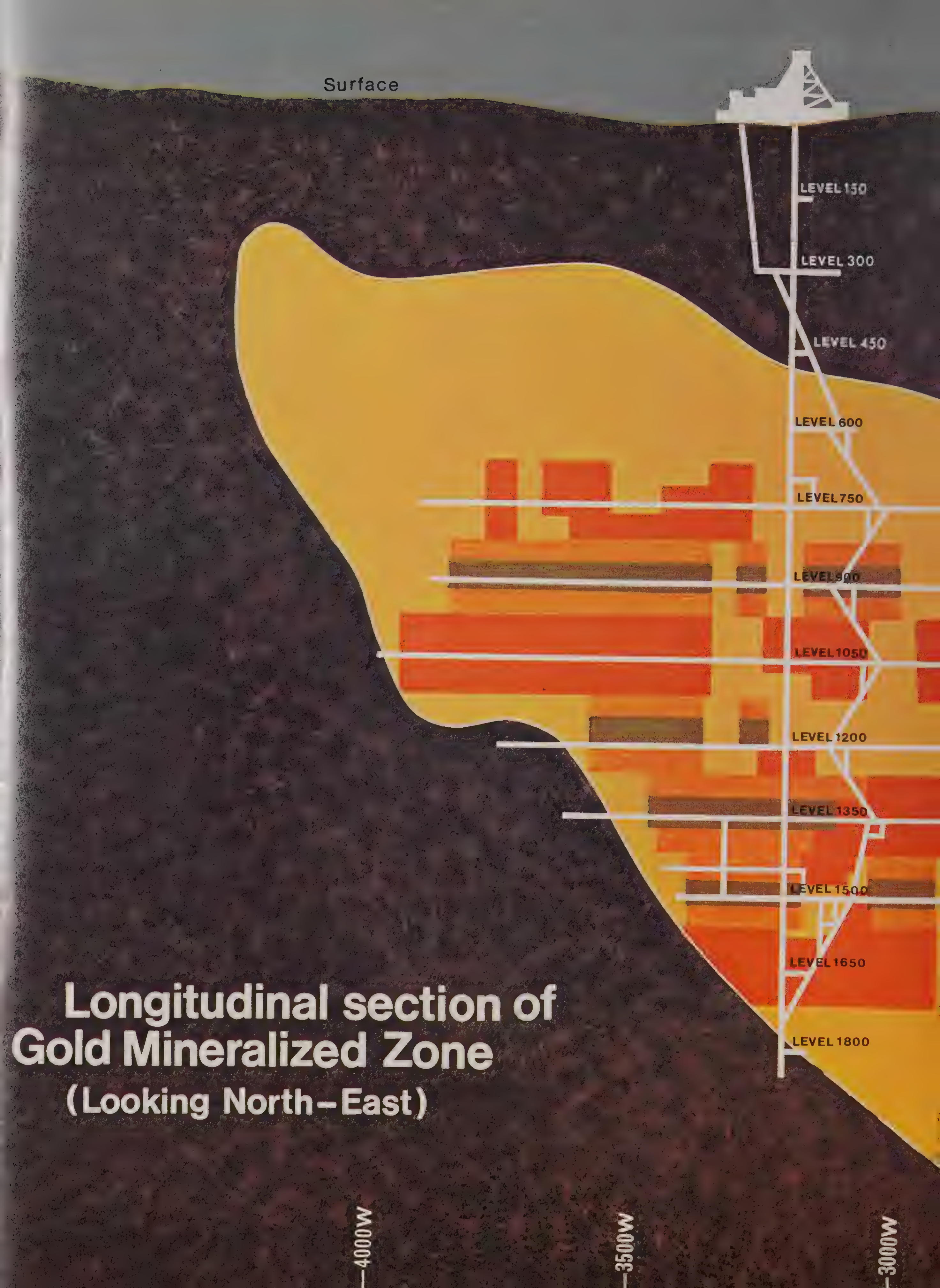
GOLD DIVISION · Joutel Twp. Quebec

Longitudinal section of Gold Mineralized Zone and assumed projection (Looking North-East)

The idealized longitudinal projection above is designed primarily to indicate the significance of the acquisition of the property adjoining to the southeast of the main property on which all underground work to date has been done. The outlines of the ore zone projected on to the adjoining ground are hypothetical since there has been no drilling carried out to date to confirm these assumptions. Underground work indicates that the east end of the orebody enters the adjacent ground owned by the Company's subsidiary at about the 1300-foot horizon. Assuming the ore zone on the main property continues to depth and maintains its present rake, the west end of the orebody would enter the adjoining claims at approximately 3,700 feet below surface.

Property Plan
Joutel Township, Quebec

The map above shows the main 60-claim property and the adjoining 34-claim property held by the Company's subsidiary. The location of the longitudinal projection depicted overleaf is plotted, along with the location of the dimensional section which appears on page 10 of this report. These two contiguous properties provide nearly three miles of strike length along the main gold bearing structure with the presently defined gold orebody located near the southeastern boundary of the main property. Acquisition of this adjoining property was fortuitous in that the subsidiary company was purchased at a time when interest in gold had reached a low ebb in early 1971. Lateral development to the southeast was confined to within about 50 feet from the boundary.



Longitudinal section of Gold Mineralized Zone
(Looking North-East)

BOUNDARY
Surface
ORE RESERVE
Proven Ore
167,161 0.357
93,173 0.241
Probable Ore
325,813 0.347
167,762 0.238
Total - Proven & Probable
753,909 0.306
Possible - Drill indicated
2,397,748 0.285
TONS GRADE
Property holdings of Subsidiary Company - 34 Claims
Gabbro
Dyke
SCALE
0 100 200 300 400 500 600
feet

During and attendant to the negotiations for the required additional financing for the final phase of the program, the management considered it prudent to reappraise the profitability of the planned operation under the then existing price of gold. While this study indicated that an economically viable mining operation was possible on the basis of a gold price of US$35.00 per ounce by utilizing selective mining of above mine average ore to yield acceptable profit margins, such an operation could not be sustained at these profit margins beyond a period of about two years unless there was an appreciable increase in the price of gold.

It is to be noted that in the interval between the time when preparations were made to proceed with planned production, the price of gold dropped from around $44.00 per ounce in May of 1969 to a range around $35.00 in January of 1970.

After careful deliberation, the management concluded that in view of the then prevailing gold price and related financing conditions, it would be prudent to defer the commencement of production until such time as the economics improved — essentially a sustained increase in the price of gold to levels that would ensure appropriate profit margins and maximize the value of the orebody.

Events subsequent to this decision to defer production and conserve the orebody have positively demonstrated the wisdom of this judgement. The gross value of the orebody as presently defined has appreciated some $50 million based on the recent gold price of approximately $95.00 per ounce and the estimated annual mine operating profit has multiplied nearly fifteen times from the level that would have been realized at the $35.00 price.

In June, 1972, the management announced its decision to formalize plans for financing the completion of the mine and mill to enable the commencement of production coincident with the assurance of a sustained higher gold price. The Company then retained experienced consultants to conduct detailed studies of the capital costs involved and modifications of the originally planned mining methods to both minimize preproduction expenditures and maximize profit margins during the initial operating years.

CURRENT CONSTRUCTION PROGRAM

Mill-Crushing Buildings

After completion of the engineering studies by Leslie Engineering Limited, the final phase of the construction program to ready the mine for scheduled start-up of production at 1,000 tons per day by September-October of 1973, commenced on August 21, 1972 when the contractor's crews arrived at the mine site.

The construction program which is now in full swing is on schedule and below original budgeted cost estimates. For the most part, the series of photographs in this Report were taken at various intervals since the commencement of the current phase of the construction program up to the end of April, 1973.

The current status of the construction program is as follows:

(1) Steel erection for the mill-crushing complex including conveyor galleries has been completed. The steel cladding of these buildings has been completed and the roof installed.

(2) The six drum filters were installed in position. Foundations for the crushing and grinding sections have been finished.

(3) Installation of the crusher and rod mill is currently under way and installation of the pebble mill, now on the property, is scheduled for the current month.

(4) Metal floor grating and stair treads have been installed in the mill and crushing plant.

(5) Conveyor systems were revised and have been ordered.

(6) Design of the plant electrical system has been completed and purchase of substation, primary and secondary transformers has been finalized.

The above work is being supervised by Leslie Engineering Limited and is being carried out by various contractors and a mine maintenance crew.

Mine Surface Plant

In conjunction with construction of the mill-crushing plant building, the surface mining plant is being prepared. Two additional compressors have been purchased and installation in the existing hoist-compressor building is under way.

The mine ventilation equipment was investigated and the mine vent fan was ordered. The main hoist pinion shaft, bearings and motor were re-aligned.

Mine Development Program

The section of the shaft below the 15th level has been dewatered and repairs to the shaft are in progress. Upon completion of this, the initial work will consist of completing the excavation of the crusher station. An underground crusher has been purchased and is at the property. As soon as the crusher is installed underground development will commence to prepare sufficient stopes to maintain the 1,000 ton per day production rate commencing in September-October 1973. A mine manager was recently hired and is organizing the underground development program and is also recruiting mine staff and operating personnel.

Cost of Construction and Mine Development Program

The foregoing construction and mine development program was estimated to cost $3,160,000. Costs to date have been running slightly under budget and at April 30, 1973, the amount expended or committed totalled $1,386,000 with a further $1,674,000 estimated as the required amount to complete the program to production. In addition, a further amount of $300,000 has been budgeted for working capital.

Quite apart from the latest indicated reduction of approximately $100,000 in the forecast cost of this program from $3,460,000 to $3,360,000, these figures represent a substantial saving from the preliminary estimate of $3,840,000 made in July, 1972.

The design capacity of the mill is 1,000 tons per day. Adequate provision has been made in the design of the mill building for the addition of extra treatment equipment including the addition of a flotation circuit which could double the capacity of the cyanide unit. This, together with other modifications and additions to the mining and treatment complex could enable an increase in the treatment rate in excess of the present design capacity.

DESCRIPTION OF THE JOUTEL TOWNSHIP GOLD MINE

The gold mineralized zone containing the ore lenses has been established to date over a length of some 2,000 feet (as shown on the 1050 foot level) and from 300 feet below surface to the 1800 foot level. The main ore zone has only been partially developed. As the orebody is a sulphide type rather than a quartz vein type deposit, the chances for extension to a much greater depth are considered promising.

There is also the possibility of other parallel bodies occurring on strike and also at depth. It is also known from experience that sulphide type deposits are much more uniform in grade and not as erratic as the vein type deposits.

The main ore zone as presently defined is open to the east and to depth below the 1800 foot level which is the deepest horizon tested by diamond drilling. Geologically, there is no known reason why this zone will not go to considerable depth.

In the ultimate planning of mine development, shaft deepening will be undertaken. Adequate provision for shaft deepening and expansion of the mining rate was incorporated in the original specifications with the hoisting equipment capable of handling up to 1,500 tons per day to a maximum depth of 3,000 feet.

Present Underground Development

The property is developed by a three-compartment shaft sunk to a depth of 1,860 feet. Commencing at the 300 foot horizon, levels have been established at 150 foot intervals to the 1800 foot level. A loading pocket is completed below the 1650 foot level and the excavation for the underground crusher is almost finished. An ore pass system has been completed from the crusher to the 300 foot level. Lip pockets are built in at each station to handle waste.

West of the shaft, footwall drifts have been completed to the limits of the known ore on the 750, 900, 1050, 1200, 1350 and 1500 foot levels. East of the shaft, footwall drifts have been driven to the east of the main boundary of the main property (done prior to the acquisition of the property to the southeast) on the 1050, 1200, 1350 and 1500 foot levels. Parts of the ore zone were drifted on the 1200 and 1500 levels. Drives were started on the 750 and 900 foot levels.

Two raises have been completed from the 1500 foot level to the level above on ore zones. Present plans are to concentrate further development on the west side of the shaft, initially on three stopes, to supply sufficient ore to maintain the 1,000 ton per day production rate. During the earlier years mining will be by open blasthole stoping using load-haul-dump trackless equipment.

The summary of the underground development completed to date is as follows:

Drifting and Crosscutting	18,292 feet
Raising	3,797 feet
Underground Drilling	34,769 feet

ORE RESERVES

The appended longitudinal projection illustrates the various ore categories which comprise the presently known or indicated ore reserves in the developed and explored area of the mine, as estimated by the mine staff at time of closure in 1970:

Category	Tons	Grade	Tons +15% Dilution at 0.35	Grade
Proven Medium Grade	145,357	0.405	167,161	0.357
Probable Medium Grade	283,316	0.393	325,813	0.347
Sub Total	428,673	0.397	492,974	0.350
Proven Low Grade	81,020	0.272	93,173	0.241
Probable Low Grade	145,880	0.286	167,762	0.238
Sub total	226,900	0.269	260,935	0.238
Total Proven and Probable	655,573	0.348	753,909	0.306
Possible	2,084,999	0.323	2,397,748	0.285
Total all Categories	2,740,572	0.328	3,151,657	0.290

Proven ore is considered to be a block of ore 25 feet above and 25 feet below drifts in ore using a combination of muck sampling and diamond drilling to establish average width and grade.

Probable ore is established as a block 50 feet above and below proven ore using the proven width and grade adjusted for the influence of diamond drill intersections where applicable within the ore block.

Possible ore is that indicated by diamond drilling and projections on reasonable geological evidence. In the developed area of the mine, the influence is extended 50 feet on either side horizontally and 25 feet above and below drill intersections.

Of the total 2,397,748 tons comprising the possible or drill-indicated reserves, 868,022 tons of 0.31 undiluted grade are attributed to the area above the 750 foot level and estimated from original surface diamond drilling. The remainder includes 977,835 tons of 0.258 undiluted grade between the 750 and 1500 foot levels and 551,891 tons of 0.293 undiluted grade below the 1500 foot level.

In summary, ore reserves, as presently estimated are:

Category	Tons +15% Dilution	Diluted Grade
Proven and Probable	753,909	0.307 oz/ton
Drill-Indicated	2,397,748	0.285 oz/ton
	3,151,657	0.290 oz/ton

The foregoing tonnage would be sufficient to provide feed for a 1,000 ton per day mill for a period of approximately 10 years. It is to be noted for certain portions of the orebody that the grade of ore to be mined in the initial years will likely be above the mine average grade of 0.290 ounce per ton. (See appended 'Dimensional View of Gold Mineralized Zone' in which the average uncut grade is estimated at 0.40 ounce of gold per ton.)

POTENTIAL EARNINGS

It is recognized that any estimate of potential earnings is subject to upward or downward adjustments based on actual mining and milling results, as well as variations in the grade of ore mined and the possible use of different cut-off grades consistent with the economic value of the ore at different gold prices.

For the purpose of this projection of potential earnings, viz., the estimated annual mine operating profit (which is before deductions for provincial mining taxes, corporation taxes where applicable, exploration costs, debt or loan interest charges and non-cash write offs for depreciation and amortization) is calculated on the basis of the following assumptions:

Milling Rate	1,000 tons per day, 350,000 tons per year
Mine Operating Cost	$8.00 per ton of ore milled
Mill Heads	Diluted mine average grade 0.29 oz/ton
Gold Recovery	90% or 90 x 0.29 = 0.261 oz/ton

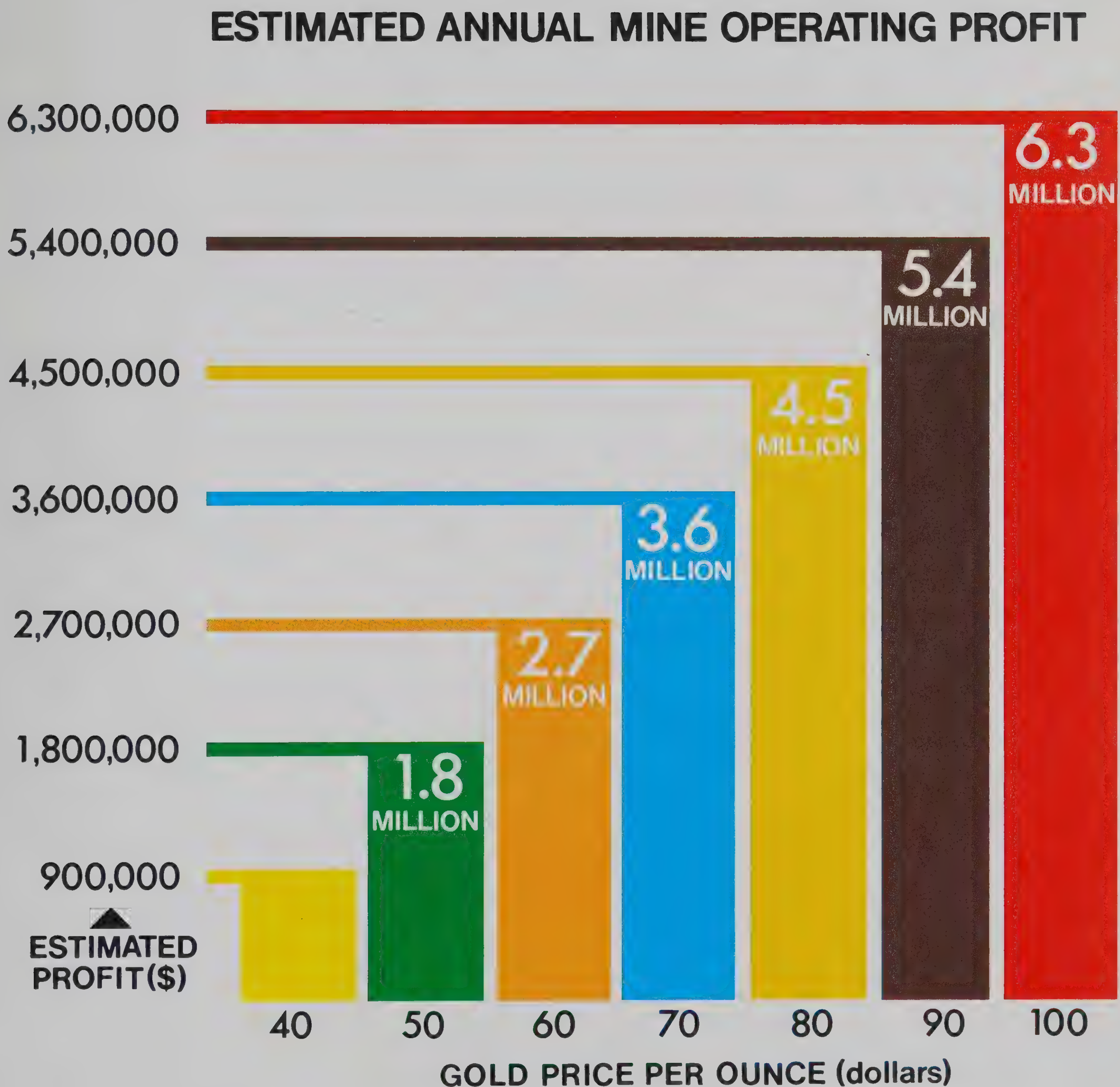
The estimated annual mine operating profit based on a gold price of $75.00 per ounce will amount to $4,051,250. Each $10.00 per ounce variation in the price of gold will increase or decrease the annual mine operating profit by $913,500. At the current gold price around $95.00 per ounce this represents an increase in the annual mine operating profit of $1,827,000 — an upward revision in the estimated annual mine operating profit to $5,878,250.

The following table shows the enhancement in value at various prices for gold in terms of the gross recovered value per ton (90% of 0.29 oz/ton = 0.261); the gross recovered value of the deposit based on the presently defined proven, probable and drill-indicated reserves (3,151,657 tons @ 0.261 oz/ton); and the estimated annual mine operating profit:

Gold Price Per Ounce	Gross Value Per Ton	Gross Value Total Tons	Annual Mine Operating Profit
$ 40.00	$10.44	$32,903,299	$ 854,000
50.00	13.05	41,129,124	1,767,500
60.00	15.66	49,354,949	2,681,000
70.00	18.27	57,579,773	3,594,500
80.00	20.88	65,806,598	4,508,000
90.00	23.49	74,032,423	5,421,500
100.00	26.10	82,258,248	6,335,000

Note: The above are arithmetic calculations using constant operating costs and recovered grade at 0.261 ounce per ton. For certain portions of the orebody, the grade of ore to be mined in the initial years will likely be above the mine average grade.

The foregoing calculations demonstrate the considerable leverage exerted on annual operating profits from variations in the price of gold, clearly confirming that the decision in January 1970 to defer production has very materially increased the expected financial return from mining operations at the current higher gold price range.


ESTIMATED ANNUAL MINE OPERATING PROFIT
6,300,000
5,400,000
4,500,000
3,600,000
2,700,000
1,800,000
900,000
ESTIMATED PROFIT($)
6.3 MILLION
5.4 MILLION
4.5 MILLION
3.6 MILLION
2.7 MILLION
1.8 MILLION
40
50
60
70
80
90
100
GOLD PRICE PER OUNCE (dollars)

BALANCE SHEET as at December 31, 1972

ASSETS

CURRENT ASSETS

Cash

Accounts receivable

Smelter settlements outstanding, at estimated net realizable value

Marketable securities, at cost

Supplies, at average cost

Prepaid expenses and deposits

FIXED ASSETS, at cost (Note 3)

Buildings, machinery and equipment

Less: Accumulated depreciation

Road

Mining claims and properties

DEFERRED EXPENSES (Note 4)

Silver Division less amortization

Gold Division

OTHER ASSETS, at cost

Shares of wholly-owned subsidiary companies, at nominal value

Amalgamation expenses, at cost

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued charges

Loans payable — 8%

SHAREHOLDERS' EQUITY

Capital

Authorized — 20,000,000 shares without par value
Issued and Fully Paid (Note 5) — 13,861,827 shares
Deficit

The accompanying notes form an integral part of these financial statements.

To be read in conjunction with the Auditors' Report to the Shareholders attached hereto dated March 30, 1973.

$ 213,683	
46,067	
52,137	
24,639	
65,754	
163,017	$ 565,297
6,717,271	
2,240,484	
4,476,787	
188,090	
453,319	5,118,196
883,167	
5,496,551	6,379,718
3	
78,878	78,881
	$12,142,092
$ 213,004	
296,972	$ 509,976
12,947,145	
1,315,029	11,632,116
	$12,142,092

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Agnico-Eagle Mines Limited as at December 31, 1972 and the statements of deficit, income — Silver Division, deferred expenses — Gold Division and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As outlined in Note 2, the development of the gold ore-bodies had been deferred until economic and other conditions were more favourable. Recovery of fixed asset costs and deferred expenses is dependent upon the successful arrangement of the additional necessary financing to complete the project.

In view of the significance of the matters discussed in the preceding paragraph, we are unable to express an opinion on the accompanying financial statements taken as a whole. In our opinion, however, the accompanying balance sheet presents fairly the current assets, other assets, current liabilities and capital stock of the company as at December 31, 1972 and the statements of income — Silver Division, deferred development expenses — Gold Division and source and application of funds present fairly the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles.

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL,
Chartered Accountants.

Toronto, Ontario,
March 30, 1973.

Approved on behalf of the Board of Directors:

PAUL PENNA, Director.

ARCHIE BASEN, Director.

STATEMENT OF DEFICIT

For the Period from Amalgamation to December 31, 1972

BALANCE — on amalgamation June 1, 1972	$ 966,291
Add: Net loss for the year	348,738
BALANCE — end of year	$1,315,029

STATEMENT OF INCOME — SILVER DIVISION

For the Year Ended December 31, 1972

REVENUE		
Production of metals (Note 6)	$ 203,532	
Less: Marketing expenses	47,486	
	156,046	
Add: Profit on sale of silver bullion	88,603	$ 244,649
EXPENSES		
Mining and development	325,971	
Mill shut-down expense	10,565	
Administration	75,228	
Depreciation	77,283	
Amortization of deferred development expenses	107,395	
	596,442	
Less: Sundry income	3,055	593,387
NET LOSS FOR THE YEAR		$ 348,738
LOSS PER SHARE		2.5¢

The accompanying notes form an integral part of these financial statements.

STATEMENT OF DEFERRED EXPENSES — GOLD DIVISION

For the Year Ended December 31, 1972

JOUTEL TOWNSHIP — GROUP II		
Administration	$ 117,129	
Wages and salaries	70,686	
Heating and hydro	16,077	
Licences, taxes and insurance	23,501	
Mine supplies and expenses	15,370	
Consulting and engineering fees and expenses	15,953	
Maintenance	4,567	
Telephone	1,393	
Equipment rental	325	
	265,001	
Less: Rental income	27,026	$ 237,975
BALANCE DEFERRED — beginning of year		5,258,576
TOTAL DEFERRED EXPENSES — GOLD DIVISION		$5,496,551

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended December 31, 1972

SOURCE OF FUNDS		
Sale of capital stock	$1,047,500	
Refund of deposit — Quebec Hydro	1,084	$1,048,584
APPLICATION		
To Operations		
Net loss for the year		348,738
Less: Depreciation	77,283	
Amortization of deferred development	107,395	184,678
		164,060
Development expenses — Gold Division		237,975
Development expenses — Silver Division		416,557
Buildings, machinery and equipment (net)		525,090
Mining claims		524
Amalgamation expenses		78,878
		1,423,084
DECREASE IN WORKING CAPITAL		374,500
WORKING CAPITAL — beginning of year		429,821
WORKING CAPITAL — end of year		$ 55,321

The accompanying notes form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1972

1. PRINCIPLES OF AMALGAMATION

The company was formed on June 1, 1972 as a result of the amalgamation of Agnico Mines Limited (Agnico) and Eagle Gold Mines Limited (Eagle). As the shareholders of the amalgamating companies received shares of Agnico-Eagle Mines Limited (Agnico-Eagle) and as the amalgamation involved related companies, the "pooling of interests" accounting method has been followed, whereby the assets, liabilities, capital and deficit balances were carried forward at the net book values shown in the accounts of the individual companies. Certain figures have been reclassified in order to conform the presentation for the constituent companies. These financial statements include the figures of Agnico and Eagle to May 31, 1972 and those of Agnico-Eagle from June 1 to December 31, 1972. Comparative figures for 1971 are not presented as they would not be meaningful.

2. DEVELOPMENT PROGRAMME — GOLD DIVISION

In January, 1970 Eagle decided to defer bringing its gold mining property known as Joutel Township — Group II into production in view of the then prevailing market price for gold and the attendant debt and/or equity financing conditions. In light of the present economic conditions and the increased market price for gold, in July, 1972 the company announced that it would proceed with the final phase of completing the construction of the milling plant and the preparation of the mine for production at a rate of 1,000 tons per day with commencement scheduled for September-October, 1973. To December 31, 1972 the company had expended $4,477,344 in fixed assets and $5,496,551 in deferred expenses in connection with this programme.

3. FIXED ASSETS

The company follows the policy of recording depreciation on buildings, machinery and equipment at such time as each mine may become productive.

The company owns approximately 90% of the outstanding capital stock of Telbel Mines Limited. The chief assets of Telbel Mines Limited are mining development licences on 34 claims adjacent to the company's gold mining property known as Joutel Township — Group II and accordingly the cost of the company's investment has been included in mining claims and properties.

4. DEFERRED EXPENSES

The amounts shown for deferred expenses represent costs to date less amounts written off and are not intended to reflect present or future values.

5. CAPITAL STOCK

During the year, the company issued shares as follows:

	Agnico		Eagle	
	No. of Shares	$	No. of Shares	$
Balance — December 31, 1971	3,584,327	2,733,177	6,605,000	9,166,468
Sold prior to amalgamation for $3.25 per share cash			50,000	162,500
Balance — May 31, 1972	3,584,327	2,733,177	6,655,000	9,328,968

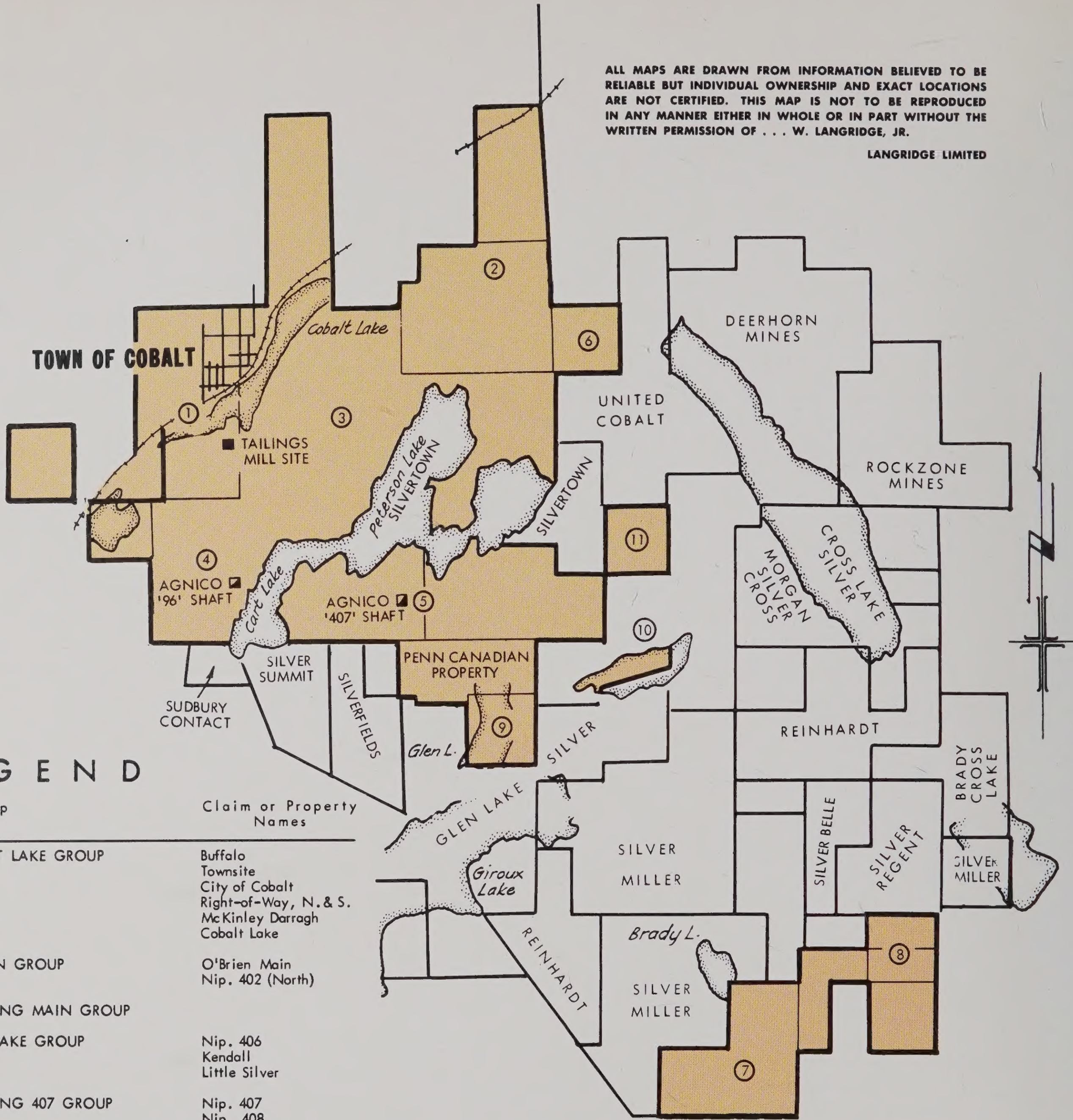
	Agnico-Eagle	
	No. of Shares	$
Converted to Agnico-Eagle on the basis of 1 share for each Agnico share and 1½ shares for each Eagle share	13,566,827	12,062,145
Sold subsequent to amalgamation for $3.00 per share cash	295,000	885,000
Balance — December 31, 1972	13,861,827	12,947,145

6. REVENUE RECOGNITION

The policy of the company is to recognize revenue after the ore has been milled. In an effort to combat rising costs and more effectively utilize the capacity of the Penn Mill, a decision was made to suspend operations of the mill for 1972 during which period ore was being stockpiled for later treatment in the mill. Thus, revenue for the year ended December 31, 1972 results only from high-grade ore not milled. All mining and development costs in connection with the stockpiled ore were expensed during the year.

7. OTHER STATUTORY INFORMATION

Aggregate direct remuneration of directors and senior officers (as defined by The Business Corporations Act) amounted to $94,718 for the year ended December 31, 1972.



LEGEND

No. Group	Claim or Property Names
1. COBALT LAKE GROUP	Buffalo Townsite City of Cobalt Right-of-Way, N. & S. McKinley Darragh Cobalt Lake
2. O'BRIEN GROUP	O'Brien Main Nip. 402 (North)
3. NIPISSING MAIN GROUP	
4. CART LAKE GROUP	Nip. 406 Kendall Little Silver
5. NIPISSING 407 GROUP	Nip. 407 Nip. 408 Penn Canadian Michigan Cobalt
6. NIPISSING EAST GROUP	Nipissing East Claims O'Brien East Claims Colonial
7. LODE-CHRISTOPHER GROUP	Adanac Columbus
8. BEAVER TEMISKAMING GROUP	Temiskaming Gifford Quaker City
9. FOSTER	Mill Site
10. CROWN RESERVE	
11. FARAH	
12. AGAUNICO GROUP (Not shown on map)	Agaunico Ruethel
13. DOTSEE "	Yorkshire Cobalt
14. GILGREER "	Canadian Lorraine
15. KEYLODE "	Currie Wettlauffer

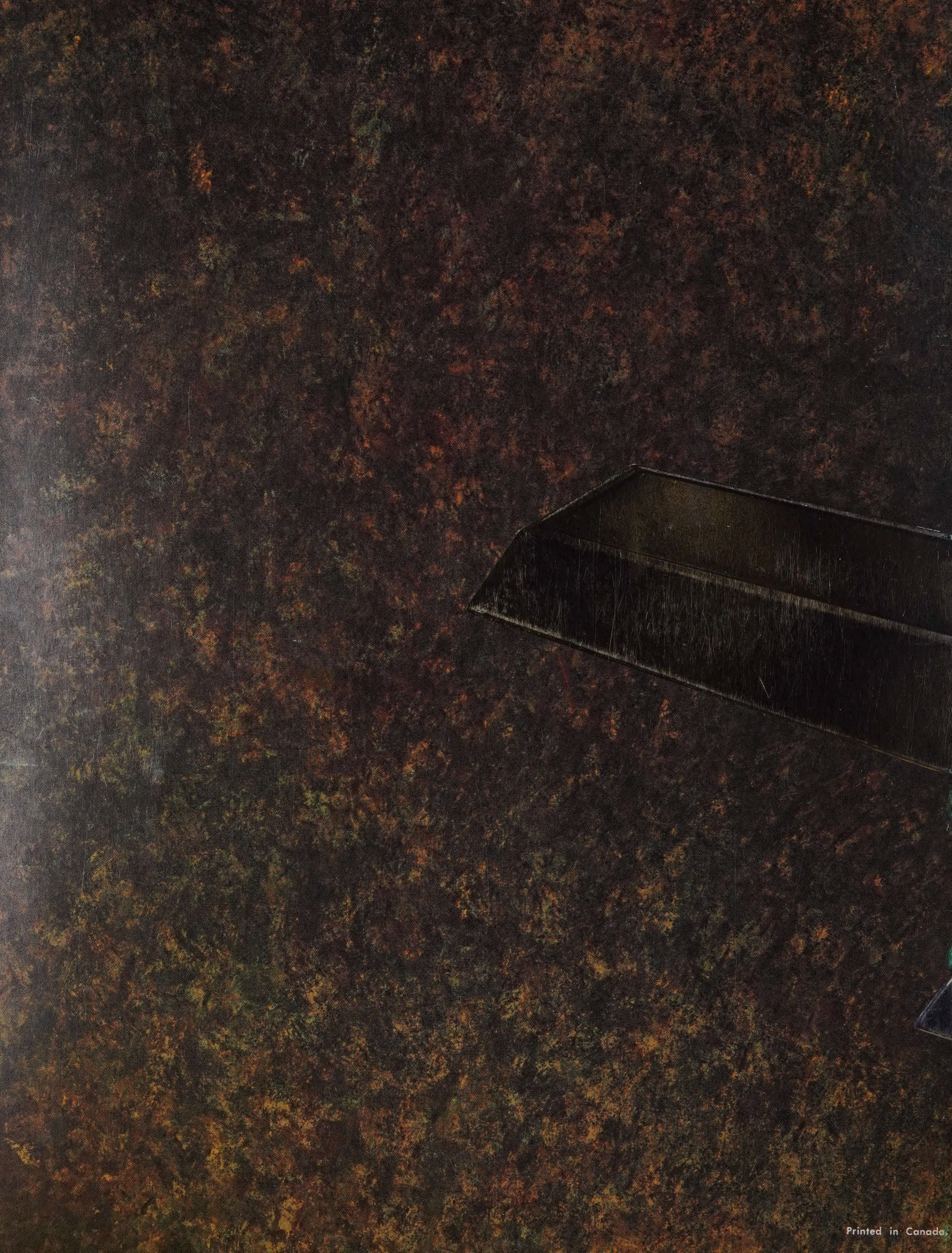
AGNICO-EAGLE
mines limited

HOLDINGS in the COBALT SILVER AREA

ONTARIO

0 1 mile

South Lorrain Township, in which the Company's Trout Lake Mine production unit and the current underground exploration at the Frontier Mine are located, is about 20 miles to the southeast of the area shown in the above map.



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